



***National Security Study Group  
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The National Security Study Group (a.k.a., “Hart-Rudman Commission”) is pleased to post the following paper, entitled “East Asia” on the NSSG web site. This paper was prepared by NSSG staff on the basis of an extended research, workshop, and interview effort. It was designed to serve two purposes: to inform and stimulate the thinking of the NSSG Senior Advisory Board in advance of its April 5-6, 1999 seminar; and to provide a building block in the process of completing the NSSG Phase I report, which is mandated by the NSSG Charter to be delivered no later than August 15 of this year. While this paper is in fact serving as a building block for the Phase I report, it will not be replicated verbatim in that report. It would therefore be inaccurate and misleading to think of this paper as constituting formally a part of the NSSG Phase I report.

“East Asia” is one of five papers produced by the NSSG staff for its April 5-6 Senior Advisory Board seminar. Other papers will be posted in this space in due course. Visit the NSSG web site often, and keep abreast of our activities. As always, we welcome your comments, constructive criticism, and suggestions for further research.

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March 29, 1999

*Pre-Decision Draft*

## East Asia

The Charter of the National Security Study Group calls for a Phase I Report by August 15, 1999 that is to describe the national security environment that the United States will likely encounter in the first quarter of the 21<sup>st</sup> century. This paper focuses on one part of that environment: East Asia.

East Asia contains not only upwards of a third of the world's population, but also hosts what is widely taken to be the most likely major future competitor for the United States (China), one of its most critical allies (Japan), and one of its most intractable problems (Korea). East Asia's importance to the United States is likely to grow between now and 2025, whether due to the region's strengths or to its problems.

The paper begins by defining a baseline national security environment, derived mainly from the continuation of current trends, making explicit major assumptions in each of the following areas: political, economic, societal, technological, and security/military.

Some of the assumptions, such as several bearing on demography, are fairly certain. Others, such as those involving economic growth, are best characterized as trends whose direction seems clear but whose magnitude is not. Still others fall into the category of "best guesses" as, for example, the prospects for war. Clearly, some assumptions are more important than others, thus requiring judgments as to what to present in characterizing the baseline national security environment.

In defining each of these assumptions, it is important to remember that our aim is not to predict the future or to assign probabilities to various futures, but rather to understand the likely *range* of developments that will impinge on U.S. national security strategy in the future. Thus, given that so much is uncertain about the national security environment so far ahead, this paper identifies critical assumptions that could change, and speculates as to what the implications of those changes might be. And because U.S. policies will affect how the national security environment evolves, the paper discusses possibilities for changes in these policies as well.

Ultimately this analysis will be blended together with those of other regions and those concerning key functional domains (global economic, technology, and military/security) to generate the characteristics of the overall national security environment for 2025—the requisite product for Phase I of the NSSG Charter.

## A Baseline Environment for East Asia through 2025

The assumptions upon which the baseline national security environment is built are derived mainly from a continuation of current trends. This does not mean that we believe this baseline environment to be the most plausible future, only that it is a logical place to begin thinking about the range of future possibilities.

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## *Political Characteristics*

- No major interstate war has occurred within the region through 2025.
- Multilateral political and security institutions remain similar in the nature of their activities and degree of cooperation to those of the late 1990s. APEC and ASEAN continue to exist, but bilateral relationships remain the primary mechanism for addressing regional issues. East Asia has nothing comparable to the OSCE or WEU in Europe, or to the tiers of arms control agreements that characterize European security.
- China is an autocracy under the rule of a single, Leninist party, but one characterized by growing de facto economic and political freedoms. Some provinces have substantial autonomy from Beijing. Hong Kong continues to develop under the Basic Agreement. China, well aware that its treatment of Hong Kong has profound implications for the final settlement of the Taiwan issue, adheres to the “One Country-Two Systems” concept. Protests for greater regional autonomy/independence occur frequently in areas such as Tibet and Xinjiang. Contested elections are increasingly permitted at lower administrative levels (sub-provincial or provincial). Several significant episodes of internal repression have occurred over the past decades, which have fostered moderately successful broad-based pressures for legal guarantees of individual freedoms and rights of association.
  - China generally employs a cooperative approach to the conduct of its foreign policy, characterized by integration into international political and economic institutions and by the negotiated resolution of regional disputes and conflicts. It is a member of both the World Trade Organization (WTO) and an expanded “G-9.” China’s growing global interdependence involves cooperation with many states over a wide range of fields, including international arms control and non-proliferation agreements. China is by far the dominant regional power, but it has worked to build cooperative relationships with other states, particularly those of Southeast Asia. As a consequence, while there are disputed issues between China and its neighbors, no major regional alliances have formed to counter China’s power.
  - In 2025 India and China remain the world’s two most populous countries. Growing regional power projection capabilities of both countries and their desire to be taken seriously by the international community as important global players contribute to a regional rivalry, but one that has not spilled into overt conflict.
- Japan’s democratic government features a significant and credible opposition party. It is well integrated into international economic and political institutions, and its domestic economic system has made the parallel transition to full transparency and other international economic “best practices.”

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- From an extremely weak economic position, North Korea agreed early in the century to reunite with South Korea. This union has been essentially achieved, although progress toward it has been marred by social unrest and sporadic violence. Substantial international participation in humanitarian assistance and other support was a key element in the successful reunification. Korea by 2025 is democratic, reasonably stable, and economically prosperous. No nuclear weapons, long-range missiles, or U.S. troops are present on the peninsula.
- Democratic institutions are firmly in place in Taiwan. Relations with Mainland China include a political framework built after a tense period of near-confrontation in the Taiwan straits early in the 21<sup>st</sup> century. The two parties cooperate in a variety of functional areas (including confidence-building measures, trade, investment, and natural disaster cooperation), pending negotiations on the terms of a final reconciliation.
- Indonesia is an irregular democracy, with real political parties and a free press, but a democracy whose elections are still noted for ballot box problems. While there have been some efforts at reform and at redressing economic and social inequalities, corruption remains a significant problem within both the political and economic systems. The military is integrated into the political system and exerts significant influence on government policy. There has been some devolution of political power to regions in an effort to avoid a violent disintegration of the state.
- A mix of liberal democratic regimes and autocracies characterizes the rest of the region. In addition to Australia and New Zealand, the Philippines, Thailand, and Malaysia are constitutional democracies with meaningful opposition parties and levels of political participation. Cambodia is in political transition, with significant instability. Vietnam and Laos are strongly authoritarian.

## **Economic Characteristics**

- East Asia is the global economic center of gravity and the largest and most powerful economic grouping in the world. The region has grown at an average of about 6 percent per year over the last several decades, more rapidly than any other region. The region's share of global GDP has increased to slightly less than one third; the next largest regional economy, Europe, accounts for about one fifth of global GDP. Significant Asian trade and investment are occurring among the countries in the region as well as with the United States, Europe, the Middle East, and Latin America. East Asia's overall investment profile is coequal with or greater than that of any other region of the world.
- Having pushed aggressively to privatize its State-Owned Enterprises (SOEs) and to reform its banking system early in the 21<sup>st</sup> century, China's GDP is the largest in the world in absolute terms, slightly larger than that of the United States. China's share of global GDP has risen from about 8 percent in the late 1990s to about 14 percent by 2025. China has also become a major source of international financial liquidity. With dependencies and economic interests around the globe, China conducts itself as a major world power, with active policies outside of Asia. At the same time, with four times the population of the United States, China still lags well behind America, as well as many



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*Pre-Decision Draft*

other developed states, in its standard of living.

- With the largest economy in the world, China requires an enormous amount of energy, more than twice what it consumed in the late 1990s—when it burned one of every three tons of coal used worldwide. China promotes hydroelectric, coal, and oil as principal sources, and imports a considerable amount of oil (about 320 million tons a year). Coal-based electricity poses severe environmental problems. China shares, with other major oil importers in East Asia such as Japan, a strong interest in keeping oil flowing at moderate prices from key sources, and in keeping strategic sea-lanes open. Beijing takes keen interest in fostering positive economic, political, and security relationships with key oil producers around the globe, especially in Central Asia, Russia, and the Middle East.
- In 2025, Japan is a major source of economic output for the global economy, but its global GDP share has dropped from about 8 percent in the late 1990s to roughly 4.5 percent.

## **Societal characteristics**

- The populations of the five largest states in the region have changed—from 1999 levels—roughly as follows: China from 1.2 to 1.4 billion people; Indonesia from 213 to 288 million; Japan from 126 down to about 120 million; the Philippines from about 80 to 121 million; and Vietnam from 76 to about 104 million people.
- The social order is being put to a sharp test as most populations in the region age. Since 1995, the numbers of 15-64 year-olds per persons 65 years and older have changed as follows: China, from 11 to 6; Japan, from 5 to 2; Indonesia, from 14 to 8; South Korea, from 12 to 4; North Korea, from 14 to 6; Australia/New Zealand, from 6 to 4; Malaysia, from 14 to 8; Philippines, from 17 to 10. The limitations of extant social security systems to deal with such significant aging trends are significant, particularly in Japan and China. Japan has had to raise its pension tax substantially to stay solvent, thus depressing capital investment and economic dynamism generally.
- East Asian traditions still emphasize hierarchical obligations of children to their parents and reverence for the knowledge of the aged. But tensions caused by the heavy financial burdens of aging populations on the able-bodied, the obvious shift of the productive knowledge base of society to younger people, and the media-borne penetration of non-Confucian influences have led to some displacement of Asian tradition, especially in rapidly growing urban areas.
- There is far wider access to regional and global communication grids and news media throughout the region. As a result, expectations have risen steadily among highly educated elites as well as common citizens, and among urban as well as rural populations, regarding quality of life issues. Citizens aspire to better public services, including those having to do with education, environmental quality, crime control, medical care, job-training, and others. In addition, greater access to media and information whets appetites for political news and participation.

# NATIONAL SECURITY STUDY GROUP

*Pre-Decision Draft*

- More than half of the region's population lives in cities, up from 35 percent in 1999, placing great strains on basic societal functions and enormous pressure on governments to improve public services and infrastructure.
- Long-standing animosities persist among many peoples in the region, such as between Chinese and Japanese, Vietnamese and Chinese, Koreans and Japanese, and Japanese and Russians. While not blocking profitable economic interactions among these nations, deep historical divisions and mistrust continue to obstruct the development of wide-ranging regional political and security cooperation.
- Indonesia continues to face social challenges due to the diversity of ethnic groups that comprise it. Tensions between the Muslim minority and both Christians and ethnic Chinese continue, but have not manifested themselves in widespread and sustained violent conflict.

## *Technological Characteristics*

- Technology of virtually every kind is available to states in the region through the global market.
- Japan is a leading global innovator and manufacturer of technologies such as micro-electrical mechanical systems (MEMs), artificial intelligence (AI), robotics, and computers. Japan's commercial space industry provides launch capability to many states and private licensees worldwide.
- Korea and Taiwan are world-class producers of communications and information technology, in some cases challenging U.S. and Japanese technological superiority and marketing success.
- China:
  - competes with U.S. firms in space launches.
  - has several world-class personal computer firms that engage in a wide range of corporate partnerships worldwide.
  - is well-linked into the global communications grid.
  - uses surveillance, communications, and positioning technologies for commercial applications, military intelligence, and to monitor potential anti-government activity.
  - is aggressively pursuing biotechnology for commercial, medical, and military purposes.

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- Regional states find themselves with markedly different environmental situations. Japan has cleaned up relative to the 1990s and has made a virtue of necessity by becoming a major innovator in environmental remediation technologies. In China, on the other hand, a situation already bad as the last century ended has deteriorated further, particularly in regard to water and air quality. Associated health and quality of life problems are fueling unrest. In both Indonesia and the Philippines, deforestation has led to significant flooding and has accelerated rural-to-urban migration. Some governments have begun aggressive programs to develop alternate fuel sources, including programs organized through leading multinational firms. China is a heavy importer of fresh water from Russian Siberia.

## **Security/military characteristics**

- China is the focus of greatest security concern for states in the region. While it has focused far more on economic development than military modernization, China is nevertheless a major military power, with many dozens if not many hundreds of strategic nuclear weapons, a robust theater missile capability, and regional power projection assets in the form of a limited blue water navy and an enhanced air force.
- China has a reasonably steady relationship with the United States, featuring many cooperative bilateral agreements (confidence-building measures in the security arena, arms control negotiations and some agreements, trade and investment, scientific and cultural exchanges). At the same time, this relationship includes vigorous competition and periodic episodes of significant mutual suspicion over issues such as managed trade, intellectual property rights, inflammatory arms sales policies, industrial and security-related espionage, and human rights.
- Japan has a modernized Self Defense Force and can act on its own in potential conflict scenarios, but it has not acquired nuclear weapons. The security alliance with the United States remains in place with substantive modifications, especially regarding U.S. forces stationed in Japan. Forward stationing of U.S. forces continues under a U.S.-Japanese bilateral agreement, but at greatly reduced levels. The Japanese work with the United States to promote interoperable military capabilities for Japanese defense activities as well as for combined peacekeeping operations.
- A unified Korea has a more modern conventional force, maintains a bilateral security agreement with the United States, and participates regularly in joint security exercises with the United States for humanitarian, search and rescue, peacekeeping, and defensive purposes.
- Economic prosperity has enabled other states in the region, including Indonesia, Malaysia, and the Philippines to increase spending on conventional weapons and regional power projection capabilities as a hedge against potential adversaries, notably China.
- China is the only state in the region with nuclear weapons, and no other states have chemical or biological weapons or long-range missiles.



# NATIONAL SECURITY STUDY GROUP

*Pre-Decision Draft*

· Claims with regard to the Spratlys have essentially been resolved peacefully. China's willingness to negotiate peacefully and the lack of evidence of substantial oil resources in the area result in the willingness of Southeast Asian states to accede to China's claims.

## Critical Assumptions Change

The assumptions that underlie this baseline strategic environment could change in many ways, either individually or in various combinations. What follows is a description of those assumptions that are both uncertain and most important, and that could change in ways that fundamentally alter the baseline sketched above.

Whereas in other regions, critical assumption changes cluster along functional or regional socio-political lines, in East Asia it makes sense to focus mainly on three key nations: China, Japan, and Korea.

- *China develops along one of three other lines:*

- China is decidedly hostile to the United States as a result of some combination of the following: a crisis in Taiwan (in which the United States sides with Taiwan); a major rearmament program undertaken by Japan (whether with or without U.S. encouragement) and/or the nuclearization of Japan; domestic political and economic turmoil that Chinese political impresarios manage to blame on the United States; U.S. policies; or an assertive Chinese nationalism that could have arisen in any of several ways. As a result, Chinese military spending is significantly higher than in the baseline environment, while China's economic prosperity has fallen short of expectations—as have its achievements in education, science, and technological development.

- China has fragmented, due to the failure of the central government to manage enormous economic challenges, social tensions, rising expectations, and centripetal tendencies. By 2025 these forces have led to the creation of a number of new states, including a newly independent Taiwan, Tibet, and a Uighur-dominated state in Xinjiang that have applied for and received admission to the United Nations. Some of these new states are pro-Western while others are hostile. Some have nuclear and other weapons of mass destruction capabilities. Black market activity for these weapons within China and outside of it is thriving. Organized criminal activity is rampant, and has struck linkages with crime syndicates outside of China.

- China undergoes major political reform after the terminal crisis of the communist system, leading to the creation of a meaningful parliamentary system with contending parties at the national level. China develops a strong strategic partnership with the United States, and takes an active leadership role in East Asian security affairs and in the United Nations. It draws heavily on U.S., European, Japanese and other corporate, governmental, and scientific expertise to tackle its daunting economic, infrastructure, and environmental challenges.

# NATIONAL SECURITY STUDY GROUP

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- *Japan evolves in one of two other major ways:*

—Japan decides to go it alone. The Restoration Party (RP) is in power, having persuaded the country that in order to restore its pride and economic dynamism in the 21st century, and especially to compete with a rising China, Japan needs a major, independent military capability. Built from a coalition of ultra-conservatives who steadily gained momentum as China built up its missile capabilities, RP leaders persuaded the Japanese public that the United States could not be counted on to have true Japanese interests at heart. Japan no longer has a bilateral security agreement with the United States. It has acquired nuclear weapons. One major net effect of this reorientation has been to hurt the Japanese economy even beyond its difficulties with an aging population, and the RP is looking for scapegoats.

—Or, Japan's leaders have failed to introduce effective economic and financial reforms, and the economy has stagnated or shrunk in real terms relative to the late 1990s. The political system is essentially paralyzed. The United States continues to have a bilateral security agreement with Japan, but Tokyo is much less willing to help fund U.S. forces stationed there.

- **Korea evolves in one of two other major ways:**

— Korean unification has occurred, but through war or a collapse of North Korea rather than through peaceful and deliberate agreement. The result is political instability, economic distress, and social turmoil of unprecedented proportions. The country retains the weapons of mass destruction capabilities of the North. Some U.S. forces remain in the South to help stabilize the domestic situation, but their future is uncertain.

— Or, Korea remains divided, although economic interaction has increased, gradually but significantly, over recent decades. North Korea has nuclear weapons. U.S. forces remain in South Korea.

- *Indonesia evolves in one of three other ways:*

— The Indonesian state disintegrates due to the government's inability to respond to a prolonged period of economic decline, and widespread ethnic and religious violence. Some islands on the periphery of the archipelago seek political autonomy in order to capitalize on substantial natural resources that they control. In other areas, including Irian Jaya, groups seek independence through armed secession. Massive refugee flows from conflict areas engulf Malaysia, Singapore, and Australia. ASEAN lacks the political will and capabilities to take action to stem or effectively manage the collapse.

## NATIONAL SECURITY STUDY GROUP

*Pre-Decision Draft*

— A political Islamic regime takes power either through electoral mobilization of the Muslim majority or through a seizure of power involving elements of the Indonesian army. It wins significant support because of previously simmering religious conflict and persistent income disparities, and adopts policies designed to promote Muslim economic interests at the expense of minorities. Widespread ethnic violence erupts against the prosperous Chinese minority and against Christians in regions like Ambon where Muslims and Christians have been more evenly numbered. This change in regime ignites existing tensions in neighboring states that are ethnically and religiously mixed, such as Malaysia, Singapore, and the Philippines, fueling popular support for local Muslim political and insurgency movements.

— Democracy takes root in Indonesia. Reforms begun in the immediate post-Suharto period gain momentum during the early part of the 21<sup>st</sup> century, bolstered by a period of renewed economic growth. There is effective civilian control of the military and rule of law, elections are contested openly and regularly, and corruption has been stemmed. Ethnic and religious tensions quiet in an environment of prosperity and participatory democracy. This more liberal Indonesia asserts a stronger leadership position within ASEAN and encourages democratic changes in other Southeast Asian states.

- *Economic conditions in the region could move in different directions:*

— The region could experience markedly faster economic growth (averaging about 7 percent per year) and, additionally, it might also progress toward an East Asian free trade zone. The economies of Japan, China, and Indonesia have all recovered very smartly early in the 21<sup>st</sup> century, powering even higher East Asian economic growth than in the baseline.

— Or, a new iteration of an Asian and/or global recession could be prolonged, leading to increasing nationalism and anti-Americanism in the region. A backlash against the United States is based on claims of U.S. insensitivity to East Asian suffering. U.S. public opinion, in turn, moves increasingly against free trade in view of mounting U.S. trade deficits and losses of American jobs. This worsens the global economic recession, leading to a vicious downward spiral.

- *The Spratlys issue evolves in a different way.*

— Sovereignty and resource issues in the Spratlys prove more contentious and China's attitudes towards Southeast Asian claims cause greater concerns. Oil resources prove more substantial than in the baseline and technological developments make extraction more economical. International cooperation is necessary to create an environment conducive to investment by multinational corporate interests, but China is more aggressive in asserting its claims, resulting in the formation of a Southeast Asian coalition for greater bargaining power. A political solution is reached but substantial tension remains between China and other regional states.

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## **Potential Variations in Evolution of U.S. Policy till 2025**

U.S. policy will affect to various degrees how the regional strategic environment evolves over the coming 25 years. In the baseline national security environment, the United States has pursued with some success a regional policy of engagement, involving a wide range of economic, diplomatic, cultural and scientific interactions. It has developed a reasonably steady relationship with China as well as maintained bilateral security agreements with Japan, Korea, and several other regional states. ANZUS remains a bulwark of security cooperation particularly for Southeast Asia and Pacific Oceania. No U.S. forces are stationed in a united, stable Korea. U.S. forces remain in Japan, but at significantly lower levels than in the late 1990s. American naval forces visit widely and regularly, including port-calls at Chinese coastal cities.

But possibilities exist for major alterations in U.S. policy over the next quarter of a century.

One possibility is that the United States seeks to contain a hostile and/or unstable China, primarily by building bilateral security agreements with other states in the region and basing U.S. forces in some of those states. In this case, the United States would significantly limit private sector trade, investment, and technology transfer activities and place sharp limits on U.S. travel to China as well as on the numbers of Chinese nationals able to study in the United States.

Or, the United States could disengage from East Asia militarily. Americans strongly support the United States focusing on defense of the homeland, and on letting states in the region assume their own national security tasks in a regional balance-of-power arrangement. Protectionist sentiments could contribute heavily to such a policy direction, particularly should the U.S. economy hit a protracted slump.

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